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INTRODUCTION

The Office of Internal Audit performed an audit of Hospital Corridor District, Wayne County FIA for the period October 1, 1997 through April 23, 1998. The objectives of our audit were to determine if internal controls in place at the district office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Hospital Corridor District had 45 full time equated positions (FTE's) at the time of our review.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Hospital Corridor District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Telephone Usage
Safe & Controlled Documents	IRS Information Security
ENP/SER Payments	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Hospital Corridor District internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We

found several instances of noncompliance with FIA policies and procedures, and weaknesses in internal controls, which are detailed below.

DISTRICT OFFICE RESPONSE

The management of the Hospital Corridor District has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated June 23, 1998 that they are in general agreement with the report, and have implemented corrective action for most items.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Hospital Corridor District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Mail Opening

1. Hospital Corridor District had two people opening the mail; however, they each were working individually at their desks. Accounting Manual Item 403 requires that two people work together to open the mail. Having two people working together to open the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that Hospital Corridor District have the two people work together to open the mail.

Mail Logs

2. Hospital Corridor District did not use the Daily Mail Record of Cash Receipts for Deposit (FIA-4729) or the Record and Disposition of Checks/Warrants (FIA-61), as required by

Accounting Manual Item 405 to record checks for deposit or returned state warrants when received in the mail. These records are necessary to provide documentation that all negotiables received in the mail are disposed of properly.

WE RECOMMEND that Hospital Corridor District record checks for deposit on the FIA-4729 and returned state warrants on the FIA-61.

Official Cashier Receipts

3. Hospital Corridor District did not prepare Official Cashier's Receipts (FIA-3681) for moneys received, as required by Accounting Manual Item 430. Preparing Official Cashier's Receipts for all moneys received through the mail or over the counter helps ensure that these items are properly disposed of or deposited to the appropriate account.

WE RECOMMEND that Hospital Corridor District prepare Official Cashier's Receipts for all moneys received.

Preaudit of FIA-849's

4. Hospital Corridor did not document that Authorization/Invoices (FIA-849) were preaudited, as required by Accounting Manual Item 413. Preauditing payment authorization documents, and documenting that the preaudit was done, helps to ensure that all payments made are accurate and appropriate.

WE RECOMMEND that Hospital Corridor District preaudit all FIA-849 payments, and document on the FIA-849 that the preaudit was performed.

ES-440 Payment Reconciliation

5. Hospital Corridor District had three Authorization/Invoices (FIA-849) on file that had not been reconciled to the FIA-849 Issuance Report (ES-440) because the District had not received the ES-440 Report. The District did not have a procedure in place to obtain missing Issuance Reports to reconcile pending Authorization/Invoice FIA-849's. Reconciling the FIA-849's to the ES-440 helps to ensure the FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Hospital Corridor District develop procedures to obtain and reconcile the ES-440 Reports.

Controlled Document Log

6. Hospital Corridor District did not properly control blank documents. We noted that the Controlled Document Log (FIA-4070) for Authorization/Invoices (FIA-849) and Purchase Order/Invoices (FIA-2083) were not properly filled out. The balance on hand column for the FIA-849's was blank, and the balance on hand column for the FIA-2083's had a balance of 169 and our physical count showed 165 items. Also there was no Controlled Document Log prepared for the Official Cashier Receipts (FIA-3681), as required by Accounting Manual Item 403. Use of the Controlled Document Log help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Hospital Corridor District use the Controlled Document Log for all controlled documents.

Monthly Closing of Books

7. Hospital Corridor District did not close its books monthly, as required by Accounting Manual Item 402. As of February 27, 1998, the month of September 1997 was still open. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that Hospital Corridor District close its books each month when the monthly reports are prepared.

Designated Staff Person

8. Hospital Corridor District did not have a Designated Staff Person (DSP) for handling confidential information received from the Internal Revenue Service (IRS), as required by Program Administrative Manual (PAM) Item 800. A DSP is necessary to ensure that information received from the IRS is kept confidential. Breach of confidentiality could result in the Agency being denied access to IRS information.

WE RECOMMEND that Hospital Corridor District appoint a Designated Staff Person to handle confidential information received from the IRS.

IRS Data Control Sheet

9. Hospital Corridor District did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the District, as required by PAM Item 800. Completion of the FIA-4488 is necessary to document that the District is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that Hospital Corridor District record all FIA-4487A's received on the FIA-4488.

Password for IRS Information

10. Hospital Corridor District did not have the password for obtaining information from the IRS through the Client Information System (CIS). PAM Item 800 describes the process for obtaining information through use of the password. The District may need to obtain information if a client or client representative requests replacement of a FIA-4487A.

WE RECOMMEND that Hospital Corridor District obtain the password for obtaining IRS information from CIS.

Unsigned Unearned Income Notice

11. Hospital Corridor did not always properly safeguard unsigned Unearned Income Notices (FIA-4487A). We found one case where the unsigned FIA-4487A was being held by the worker, and was not recorded on the Internal Revenue Service Data Control Sheet (FIA-4488). Program Administrative Manual Item 800 requires that unsigned FIA-4487A's be held by the DSP in a secure area, and that all FIA-4487A's be recorded on the FIA-4488. These procedures are necessary to ensure that information obtained from the IRS remains confidential.

WE RECOMMEND that Hospital Corridor District ensure that all unsigned FIA-4487A's are kept by the DSP in a secure area, and are recorded on the FIA-4488.

Knowledge of IRS Security Procedures

12. Mail room and Eligibility Specialist (ES) staff at Hospital Corridor District were unaware of the proper procedures to follow for confidential information received from the IRS. Family

Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Hospital Corridor District familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Hospital Corridor District, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

LOAAS Security

13. Hospital Corridor District did not maintain backup tapes for its Local Office Automated Accounting System (LOAAS) at an off-site location. Backup tapes should be stored off-site to protect them in the event of a flood, fire, or other disaster, to ensure that the District would be able to reconstruct its records if necessary.

WE RECOMMEND that Hospital Corridor District maintain a backup tape of its LOAAS at an off-site storage location.

CIS Status Codes

14. The Information Technology Technician (ITT) at Hospital Corridor District had FLM status on the Client Information System (CIS). This status code allows the ITT to make changes to client cases without an independent review of the transactions.

WE RECOMMEND that Hospital Corridor District change the ITT to a status where the ITT cannot make changes to client cases.

MA-010 Reconciliation - Openings and Reopenings

15. Hospital Corridor did not reconcile all new case openings and reopenings listed on the MA-010 Report to the Request and Registration Control Record (FIA-3614), as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A 100% reconciliation of openings and reopenings provides assurance that cases were opened only by their assigned workers.

WE RECOMMEND that Hospital Corridor District reconcile all case openings and reopenings on the MA-010 Report to the FIA-3614's.